

**THE WHITE HOUSE  
WASHINGTON**

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## CABINET AFFAIRS STAFFING MEMORANDUM

**Date:** 10/29/85 **Number:** \_\_\_\_\_ **Due By:** \_\_\_\_\_

**Subject:** Economic Policy Council Minutes: October 2 and  
October 3, 1985 Meetings

ALL CABINET MEMBERS	Action	FYI		Action	FYI
Vice President	<input type="checkbox"/>	<input type="checkbox"/>	CEA	<input type="checkbox"/>	<input checked="" type="checkbox"/>
State	<input type="checkbox"/>	<input checked="" type="checkbox"/>	CEQ	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input type="checkbox"/>	<input checked="" type="checkbox"/>	OSTP	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Justice	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input type="checkbox"/>	<input checked="" type="checkbox"/>	McFarlane	<input type="checkbox"/>	<input type="checkbox"/>
Commerce	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Svahn	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Labor	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Chew (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
HHS	<input type="checkbox"/>	<input type="checkbox"/>	HICKS	<input type="checkbox"/>	<input checked="" type="checkbox"/>
HUD	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Chief of Staff	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Executive Secretary for:	<input type="checkbox"/>	<input type="checkbox"/>
<u>CIA</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	DPC	<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input type="checkbox"/>	EPC	<input type="checkbox"/>	<input checked="" type="checkbox"/>
USTR	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
GSA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
EPA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
NASA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
OPM	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
VA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
SBA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>

**REMARKS:**

Attached for your information are the minutes of the October 2nd and October 3rd Economic Policy Council meetings.

**RETURN TO:**

☒ Alfred H. Kingon  
Cabinet Secretary  
456-2823  
(Ground Floor, West Wing)

☐ Don Clarey  
☐ Rick Davis  
☐ Ed Stucky



Associate Director  
Office of Cabinet Affairs

ON-FILE NSC RELEASE INSTRUCTIONS APPLY

MINUTES  
ECONOMIC POLICY COUNCIL

October 2, 1985  
1:00 p.m.  
Roosevelt Room

Attendees: Messrs: Baker, Block, Baldrige, Brock, Yeutter, Darman, Moore, McAllister, Daniels, Oglesby, Svahn, Brashear, Davis, Khedouri, Naylor, Russell, Smart, Stucky, and Wallis.

1. Review of the Farm Credit Situation

Mr. Naylor stated that the condition of the Farm Credit System (FCS) has weakened in the last sixty days. He explained that bad loans will be in the \$4-6 billion range, although liquidated losses will be less than that. The FCS is having difficulty selling securities, and cancelled the September 23 sale for both technical and marketing reasons. The FCS must rollover a substantial portion of its securities in October. Mr. Naylor stated that the system remains reasonably sound on a national basis, but certain sections of the country are in difficulty.

Mr. Naylor pointed out that several recent events have changed the political environment surrounding the FCS. The Farm Credit Administration's (FCA) Federal Board has directed its Governor to develop a Federal assistance legislative proposal. The FCS is also developing a Federal assistance proposal. The Independent Bankers Association has recommended Federal intervention through an "Aggie Mae" which would purchase bad FCS loans. The American Bankers Association is expected to take a more moderate position. The House Agriculture Committee is scheduled to hold subcommittee hearings on October 16 and the Senate Agriculture Committee is scheduled to hold hearings later in October.

Mr. Naylor stated that he expects Congressional action on the Farm Credit System before the end of the year, noting that the Congressional leadership is seeking advice on this very technical issue. He argued that this situation presents the Administration with a window of opportunity to try to ensure a reasonable legislative response.

Mr. Naylor reported that the Working Group on Agricultural Credit recommends that the Administration work with the Congress, initially limiting our role to assessing the general agriculture credit conditions, identifying unacceptable policy actions, reviewing actions that the FCA and FCS must take on their behalf, and indicating our willingness to work with both the Congress and FCS. The Administration would not propose specific legislation.

Secretary Block urged that the Administration be more aggressive in guiding discussion and resolution of the FCS's difficulties.

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Secretary Baker agreed and suggested that the Administration should meet with representatives of the FCS to demonstrate our interest to offer a positive response to the FCS's problems.

The Council's discussion focused on the difficulty of determining the true financial condition of the FCS. There are several obstacles to an accurate assessment of the FCS's condition, including the difficulty of valuing many of its real estate assets and the absence of an external audit. Mr. Naylor suggested that the system could probably draw down \$3-3.5 billion of its own assets, but it claims that it needs much more than that. Mr. Darman suggested that the burden lies on the FCS to demonstrate why restructuring will not meet its fiscal needs.

Secretary Baker stated that the first step the FCS should take is to stop driving its borrowing costs up by claiming that the system needs Federal assistance. He noted that the FCS has a line of credit of \$250 million to the Treasury, but has not asked to draw upon that line because Treasury has the ability to ask that the FCS be restructured if it draws upon that line.

#### Decision

Secretary Baker directed the Working Group to develop options for a positive Administration action on the FCS problem. He suggested that the Working Group investigate the possibility of requiring FCS creditors to share in any losses. The Working Group was directed to report back to the Council before the October 16 hearings.

#### 2. The Farm Bill

Secretary Block reported that the House has rejected a proposal to reduce sugar price supports and has increased the dairy diversion program. He stated that the Republicans are working closely to defeat the Bedell Amendment, which would establish a farmer's referendum to vote on higher price supports. Both the Senate and House bills are expected to cost \$12-15 billion more than allotted in the Congressional Budget Resolution.

The Council discussed the possibility of a Presidential veto. If there is no farm bill, the Government will revert to operating the farm programs on the basis of the 1949 Farm Bill. Mr. Oglesby stated that the vote on the Bedell Amendment will give an indication of our prospects for improving the farm bill in conference.

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3. Review of the Agricultural Export Enhancement Program

Secretary Block reminded the Council that the Administration agreed to a \$2 billion three year agriculture export enhancement program to target unfair agricultural subsidies. The USDA has been operating the program under guidelines established by the Economic Policy Council, including:

1. Requiring some additionality be created;
2. Commodities should be used in markets unfairly targeted by our competitors;
3. Debtor nations, such as Argentina and Brazil, should not be affected; and
4. The Soviet Union and Eastern Bloc nations should not be eligible as recipients.

Secretary Block stated that using these guidelines will limit the program to roughly one-third of its capability. Over three years, only \$750 million in commodities, out of a potential \$2 billion, will be used. He stated that USDA has been asked to testify on its administration of the program and was seeking Economic Policy Council guidance on appropriate testimony.

Decision

The Economic Policy Council suggested that USDA simply state in its testimony that it is administering the program according to guidelines that the Administration believes are appropriate.